Research Paper | Finance | E-ISSN No : 2454-9916 | Volume : 3 | Issue : 6 | June 2017

FROM MICROFINANCE TO MACROCHANGE: AN EFFECTIVE STRATEGY TO REDUCE POVERTY AND EMPOWER WOMEN

Ms. Meenu Arora [1] | Dr. Chhavi Sharma [2]

[1] Research Scholar Mewar University, Chittorgarh.

[2] Assistant Professor, Shivaji College, Delhi University.

ABSTRACT

There is a vast network of banking and cooperative finance institutions in India and, therefore, formal financial services are, in theory, available and accessible to low income families in virtually every part of the country. However, their availability is a mirage. Stung by the deficiencies of the directed credit programmes, particularly in the 1980s, the banking institutions in India have virtually withdrawn from lending to the poor while the cooperative credit system is bankrupt and all but defunct in large parts of the country.

It is in this situation that the non-government microfinance sector has attempted to provide an alternative to the often high-cost informal financial service providers on whom most low income clients must rely. Despite the supporting efforts of apex funding organisations such as NABARD and SIDBI, however, the outreach of the microfinance sector remains minus-cule in relation to the need. Barely 3 million of the estimated 60 million poor families in India have been covered by the microfinance sector. While many MFIs, and the NABARD programme, have done well in terms of promoting a semi-formal credit culture, however, this success has been achieved at the cost of flexibility. The number of the poor is enormous but ironically ,the number of Micro finance Institutions catering to them is handful .Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to alleviate poverty and become self dependent . Small scale businesses use credit/loans from micro finance institutions (MFI) to finance their business operations and others use the credit to set up business.Micro Finance Institutions were established to enable the poor without collateral security access credit funds at affordable and friendly terms and small savers to accumulate wealth. This shows that micro finance activities are relevant for the growth and development of Small scale industries.This paper is based on descriptive research and uses secondary data for the research.The study is limited to the Uttar Pradesh state. This paper deals with the functioning of micro finance institution in the survival and growth of small scale industries .In this paper different point have been suggested for the development of micro finance which will help the economic and social life of the people .

India now has that rare window of opportunity to improve the quality of life for its 1.2 billion citizens and lay the foundations for a truly prosperous future –a future that will impact the country and its people for generations to come. (sources::http://www.worldbank.org/en/country/india/overview accessed by 15 may 2014)

KEYWORDS: Micro finance, Micro finance Institution, SHGs, Financial inclusion.

INTRODUCTION

Microfinance has come to play a major role in many gender and development strategies because of its direct relationship to both poverty alleviation and to the empowerment of women. Women are the most crucial elements of the social fabric and are playing a pivotal role in the socio-economic scenario of Uttarpradesh. Indian Economy is confronted with a number of problems. But, the disparity between the wages and the wealth, the rising population, the growing unemployment and the rampant poverty are the main impediments that have plagued the system of the economy. These problems have not only created imbalances in the economic-growth but also lashed the Economy to the back-seat amongst the nations of the World. As a result, the socio-economic-agro-industrial aim of the country is being defeated, unfortunately. Though, these operations, apparently, do not contradict the central planning of the country, but, they even do not provide a united thrust to the whole system of growth and development in the country.

The Poverty and its eradication is the most alarming contributor to the slow-pace of economic development in India. Therefore, the need of the hour is to suppress poverty and to push-up the quick generation of employment in the country. Banks and other financial institutions have ever played a dominant role in fighting with the rampant poverty and with the low economic development process since independence.

This paper is based on descriptive research and uses secondary data for the research.The study is limited to the Uttar Pradesh state. This paper deals with the functioning of micro finance institution (SHGs)in the survival and growth of small scale industries . For Analyzing the role of in Microfinance in India, this study is divided into two major issues concerned with micro financing i.e. poverty ,women empowernment .In this paper different point have been suggested for the development of micro finance which will help the economic and social life of the people .

Need and Scope of the study

The aim of the present study is to know the role of micro finance in providing financial services to the large section of the vulnerable groups of the society of India.

Through this paper researchers want to survey the current microfinance status in India, its significance in poverty eradication and women empowernment.

Objectives of the study

The objectives of this study are as follows:

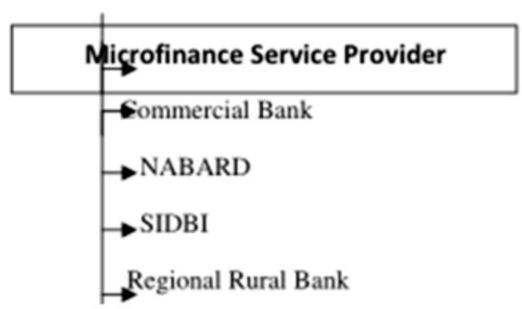
1. To study the background and current status of Microfinance in India.
2. To analyze the effect of Micro finance on Poverty reduction and Women Empowerment .
3. To highlight the measures taken by the Government of India and for promoting financial Inclusion.
4. To suggest measures for the improvement.

WHAT IS MICROFINANCE?

Microfinance is the provision of financial services to low income clients who traditionally lack access to banking and related services. It helps in reaching out to the vulnerable segments of the society like women, SC, ST which are outside the purview of formal institution. It is a form of financial development that has primarily

focused on alleviating poverty through providing financial services which help poor to take up income generating activities and secondly it focuses on women empowerment.

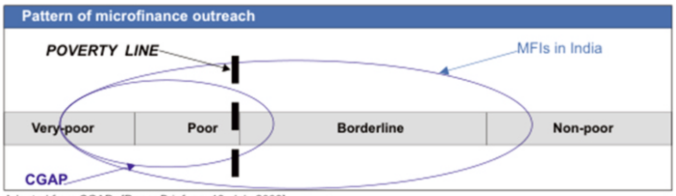
Microfinance Service Provider:



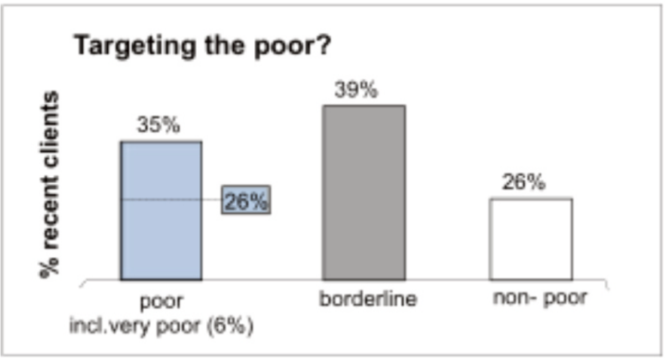
Microfinance Service providers include the apex bodies such as National Bank for Agricultural and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) .It also plays an important role in the facilitation of the programme through their priority sector lending . At the retail level we have Commercial Banks, Regional Rural Banks, Cooperative Banks, etc .that play a major role in microfinance.

Microfinance and poverty

Poverty is the condition in which low-income people cannot meet the basic needs of life. This situation leads to many fold difficulties like decreased health facilities, high illiteracy rate, decreased quality of life etc., these difficulties motivate human beings to commit heinous crimes like suicide. Poverty is defined by several authors/committees as it is the situation of having no enough money to meet the basic need of human beings.



Adapted from CGAP, [Donor Brief no. 13, July 2003]



Source: The maturing of Indian Microfinance by EDA rural system pvt. Ltd.2004.

The data shows MFIs are catering to the mixed clientele that includes poor (35%), borderline (39%), and non-poor (26%).

Microfinance institutions should aim for sustainable financial services to low income people, and, reasonably contributes the potential role of this institutional innovation in poverty reduction and empowerment. Irrespective of these approaches, many organizations have used these institutions to develop a range of services on a continuing basis to address the requirements of the poor people towards the establishing small units through providing seed capital.

1.3. MICROFINANCE AND WOMEN EMPOWERMENT

Empowerment refers to greater access to power by underprivileged or vulnerable segments of the population. Before 1990's,credit schemes for rural women were almost negligible. The Government of India took this position when it declared 2001 as the year of the empowerment of women and undertook various measures towards achieving greater equality between men and women.

Various government schemes for MSMEs provide certain special incentives and concessions for women entrepreneurs. For instance, under Prime Minister's Rozgar Yojana (PMRY), preference is given to women beneficiaries. The government has also made several relaxations for women to facilitate the participation of women beneficiaries in this scheme. Similarly, under the MSE Cluster Development Programme by Ministry of MSME, the contribution from the Ministry of MSME varies between 30-80% of the total project in case of hard intervention, but in the case of clusters owned and managed by women entrepreneurs, contribution of the MSME could be upto 90% of the project cost. Similarly, under the Credit Guarantee Fund Scheme for Micro and Small Enterprises, the guarantee cover is generally available upto 75% of the loans extended; however the extent of guarantee cover is 80% for MSEs operated and/ or owned by women.

Why Are Microfinance Services Offered Primarily to Women?

Women are a better credit risk than men.

Women benefit from creation of a social network and increased level of empowerment, in addition to economic benefits.

The group structure offers a source of mutual support and collective courage otherwise nonexistent for most women accessing microfinance services.

Income directly and positively affects the health of family members when controlled by women and earned in small and regular amounts.

Most studies examining women's empowerment focus on women's decision-making power in various realms of their lives as a reflection of levels of empowerment. A study in Bangladesh found that Grameen Bank members were 7.5 times more likely than the comparison group to be empowered, and BRAC members were 4.5 times more likely to be empowered—and the level of empowerment increased with the duration of membership (Hashemi 1996). In Nepal, an evaluation found that 68 percent of microfinance participants in the Women's Empowerment.

GENESIS OF MICROFINANCE IN INDIA

Microfinance formally started with the nationalization of Commercial Banks in 1969 in India. Later on, it got strengthened after establishment of RRBs in 1975 and achieved momentum on introduction of Integrated Rural Development Program (IRDP) and other poverty alleviation program in 1980, which centered on individuals and not on group. These revealed many deficiencies like gender inequalities, lack of mutual trust, high transaction cost, etc. Thus, to make it more effective, group approach towards microfinance was conceived and its delivery through NGOs and other voluntary groups started. The earliest step in microfinance in India by NGOs may be traced to the initiative by Self Employed Women's Association (SEWA) at Ahmadabad providing banking services to hawkers, vendors, etc. Since then a large number of NGOs entered microfinance market sponsoring loan to poor and encouraged.

An important milestone in this direction by NABARD is SHG Bank Linkage in 1991-92. The latest breeds of microfinance industries in India are Self Help Groups (SHGs). SHGs are fastest growing and most cost effective microfinance initiative in the world. In India there has been major significant state initiative in the major institutional and policy spheres since early 1990 to promote SHGs and then microfinance activities. The major initiative include SHG Bank Linkage Program under supervision of NABARD, setting up of Rastriya Mahila Kosh to refinance microfinance activities of NGOs and setting up of SIDBI (Small Industries Development Bank of India) foundation for micro credit. On the policy front RBI has given directions that classified lending to SHGs as part of priority sector lending. The Swarna Jayanti Gram Swaraj Yojana (SJGSY) and Swa Shakti Schemes for rural women are routed through SHGs.

MICROFINANCE IN INDIA: REGULATORY FRAMEWORK

The basic methodology being used in commercial microfinance in India was broadly along the lines innovated by Grameen Bank and later adapted by several players.

This involved three steps:

(i) identifying potential customers, typically on the basis of some measure of poverty, which also ensured significant homogeneity among customers;

(ii) organising them into groups (SHGs) that effectively dealt with the problems of information asymmetry described earlier; and

(iii) offering standardised products based on standardised operating systems, with strict enforcement of discipline that ensured that the exceptions were dealt with severely.

There were some differences from the Grameen model, particularly in the role of the SHGs. An SHG has 10–20 members and each member saves a certain amount every month; the SHG lends the collective savings on a monthly basis to its members sequentially on terms decided by the group. Further: The SBLP began in 1992 and has grown exponentially thereafter. National Bank for Agriculture and Rural Development (NABARD 2011) estimates that currently around 97 million households have access to regular savings through 7.46 million SHGs linked to different banks. About 4.78 million SHGs also have access to direct credit facilities from banks; around 82% of these are women-only SHGs.The focus on women borrowers has been a major feature of microcredit provision in India as in Bangladesh and is frequently cited as one of the ongoing public strategies for women's economic empowerment. It is often found that women from Scheduled Tribe or Scheduled Castes communities or other deprived groups are disproportionately excluded from SHG groups or forced to form SHGs of their own, which are viewed as inherently weaker. The very existence of MFIs has therefore sometimes been seen as another vehicle for reinforcing the multiple deprivations of vulnerable women.

This process was actively assisted by the public sector bank SIDBI (Small Industries Development Bank of India). In addition, the former development bank ICICI Bank, which had itself transformed into a commercial bank that aggressively sought new profit-making opportunities, launched a securitisation product in 2003, wherein it would buy out the portfolio of the MFIs in return for an agreement for collection of the loans. Every time a portfolio was bought out, the MFI would get the ability to lend and borrow more and therefore expand.

At the time, this process was widely celebrated as a 'win–win situation', as private profit could be associated with financial inclusion, extending formal financial nstitutions to the poor who were otherwise excluded. However, the problems with this for-profit model speedily emerged, as the excessively high interest rates and often unpleasant and undesirably coercive methods that were used to ensure

repayment showed that these new 'modern' institutions were no different from the rapacious traditional moneylenders that were supposed to be displaced by the more supposedly acceptable norms of institutional finance. As it happens, most MFIs charge interest rates of anywhere between 30% and 60% per year, with added charges and commissions and penalties for delayed payment. The rates are therefore not dissimilar to the lenders and other informal lenders in rural India.

Microfinance : MFIs in India

In India there is a diversity of approaches to microfinance, involving banks, government agencies, NGOs, cooperatives. There are now specialised microfinance institutions (MFIs), many still registered as NGOs or cooperatives, a few 'transformed' into Non-Banking Finance Companies or Section 25 Companies. Their purpose is to extend the provision of financial services (credit, savings, insurance) whilst building their own financial sustainability.

Over 100 MFIs in India have been credit-rated. These MFIs have a combined outstanding portfolio of Rs380 crores ($87 million) with cumulative disbursements of Rs1,560 crores ($360 million). Total clients of these MFIs are an estimated 2.3 million.

Micro financing institutions in India are shown in Table no.1 below:

MFIs in India (M-CRIL database December 2004)

MFI model	No. of MFIs	No. of clients	% clients by model	MFI borrowers as % of clients
SHG	76	1,434,900	62%	30%
Grameen	19	783,400	34%	79%
Individual	9	91,500	4%	67%
Overall	**104**	**2,309,800**	**100%**	**47%**

Source: The maturing of Indian Microfinance by EDA rural system pvt. Ltd.2004.

Most MFIs use groups as intermediaries for financial transactions, but there are different ways of working with groups. In Table no. 1 MFIs groups are broadly classified as the Self Help Group model (SHG) and Grameen replicators and Cooperatives. The SHG model predominates with 62% of total clients. The Grameen model covers a smaller proportion (34%) of total clients but has a larger share of outstanding portfolio, and a higher number of borrowers, due to its more regular cycle of loan disbursements. The Individual Banking (IB) model accounts for 4% of clients.

The agency wise details of loans extended to MFIs are shown in Table 2 below:

Loans to mFIs by Banks/Financial Institutions

Financing Agency	Period	Loans disbursed to mFIs during the year (₹ crore)		Loan outstanding against mFIs as on 31 March (₹ crore)	
		No. of mFIs	Amount	No. of mFIs	Amount
All Commercial Banks	2009-10	645	8038.61	1407	10095.32
	2010-11	460	7601.02	2153	10646.84
	2011-12	336	4950.98	1684	9810.98
	2012-13	**368**	**7422.66**	**1769**	**12467.72**
Regional Rural Banks	2009-10	46	24.14	103	52.22
	2010-11	9	4.16	23	42.01
	2011-12	113	13.28	128	37.51
	2012-13	**14**	**4.58**	**153**	**70.66**
Cooperative Banks	2009-10	0	0	3	0.01
	2010-11	NA	NA	NA	NA
	2011-12	4	1.61	19	4.75
	2012-13	**3**	**4.00**	**18**	**6.83**
SIDBI	2009-10	88	2665.75	146	3808.20
	2010-11	2	843.78	139	3041.77
	2011-12	12	239.42	129	1597.11
	2012-13	**41**	**408.27**	**102**	**1880.63**
Total by all agencies	**2009-10**	**779**	**10728.50**	**1659**	**13955.75**
	2010-11	**471**	**8448.96**	**2315**	**13730.62**
	2011-12	**465**	**5205.29**	**1960**	**11450.35**
	2012-13	**426**	**7839.51**	**2042**	**14425.84**

Source: Status of Microfinance in India report 2012-13

Loan to Microfinance Institutions (MFIs) by Banks / Financial Institutions:-

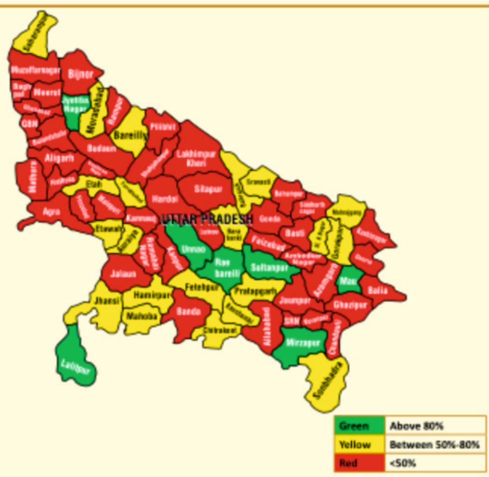
In this table 3: commercial banks Loan out standing against MFI as on 2009-10 is 10095.32 crores in 1407 No . of MFIs but it in 2012-13 is 12467.72 crores in1769 No. of MFIs whereas the Regional Rural Banks on the other hand have increased their lendings to MFIs during the year 2009-10 it is 52.22 crores in 103 No. of MFIs, but in 2012-13 is 70.66 crors in 153 No. of MFIs. The fat that Co-Operative Banks & Sidbi that there is MFIs; in Sidbi 2009-10 is 380 8.20 crores in 146 No. of MFIs but it is 2012-13 is 1880.63 crores in 102 No. of MFIs in the same way there is decline in co-operative Banks where as it is 6.83 crore in 18 No. of MFIs in 2012-13. The agencies lending funds to MFIs, the major share belonged to commercial banks recording over Rs. 2,500 crore increased disbursements, over that of the previous Year.

SELF HELP GROUPS (SHG):

SHG is a very good idea and this encourages poor people to save small amounts and use money cautiously in emergencies like unexpected health problems, natural calamities etc. They deposit money into bank and they get interest for that money. Whenever they take loan they are charged at a very low rate than interest given on deposit amount.

The micro-finance scene in India is dominated by Self Help Groups (SHGs) - Banks linkage program for over a decade now. As the formal banking system already has a vast branch network in rural areas, it was perhaps wise to find ways and means to improve the access of rural poor to the existing banking network. This was tried by routing financial services through Self-Help Groups, formed as grass roots level institutions developed for social/economic and financial intermediation for focusing on the poor. Drawing lessons from experiments carried out in various parts of the world, particularly Asia - Pacific, an attempt was made to build financial relationship between informal groups of people and formal agencies like banks for catering to the financial service requirements of the poor, especially women. Over the years, SHG-Bank linkage model has emerged in India as a core strategy for the banking system to extend their outreach to the poorest among poor. Though SHGs existed even before the linkage program, the banks could not recognize their potential as business clients and both operated independently, without knowing the strength of the other. Intervening to forge a linkage, NABARD and SIDBI was instrumental in the emergence of a very strong micro-Finance movement in the country.

UTTAR PRADESH : SHG coverage



1	Potential Rural households to be covered	134.42 lakh		
2	Rural households covered* (SHG: Savings linked)	52.51 lakh		
3	Districts with low coverage of SHGs	68 out of 75 districts		
4	Average savings / SHG (₹)	9705 National Average : 11230 Highest Priority State : West Bengal : 12388		
5	Average credit disbursed / SHG (₹)	136085 National Average : 168757 Highest Priority State : Uttar Pradesh : 136085		
		2010-11	**2011-12**	**2012-13**
6.1	Loans issued No. of SHGs (lakh)	0.28	0.34	0.33
6.2	Loans issued (₹ crore)	384.25	445.41	450.98
7	Loans outstanding (₹ crore)	1691.00	2031.77	1957.27
8	Gross NPA (₹ crore)	187.30	254.25	356.53
8.1	SGSY (₹ crore)	171.47	206.64	193.79
8.2	SHG (non-SGSY) (₹ crore)	15.83	47.61	162.74
9	No. of WSHG districts		8	

* No. of SHGs x 13 members / SHG

The Mapping is based on coverage of Savings linked SHGs vs Potential SHGs ; Data as reported by SLBC / DLCC has been used for Mapping.

Source: Status of Microfinance in India report 2012-13

Financial inclusion

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players. As banking services are viewed as public goods, availability of banking and payment services to the entire population with discrimination. Financial Inclusion is a critical component of the inclusive growth envisaged for the overall development of the economy. The spread of banking facilities has been uneven in the country, throwing up challenges for achieving financial inclusion. Even after nationalization of commercial banks in 1969 and in 1980,a good proportion of households, especially rural, is still outside the coverage of the formal banking system. An inclusive financial sector would provide access to credit for all 'bank-

able' people and firms, to insurance for all insurable people and firms and to savings and payments services for everyone .

Measures to improve the performance of microfinance for effective financial illusion:

Central banks that wish to ensure effective financial illusion for more egalitarian and sustainable development need to encourage a diversity of institutions (public development banks, community banks and cooperative banks, in addition to standard commercial banks) through a combination of incentives and regulatory measures:

- Encourage the creation and expansion of development banks that are subject to different regulatory requirements from normal commercial banks.
- Ensure that sector-specific banks and client-specific financial institutions are operating under prudential norms and other regulations that are sensitive to the specific conditions under which they operate (e.g. agricultural banks and cooperative banks).
- Create and develop national networks of community development banks that are directed to financially underserved communities.
- Introduce policies to promote or ensure lending to certain priority sectors or other measures to direct some portion of total bank credit to small borrowers with defined conditions. This may require more than normative prescriptions to extend to actual enforcement through active monitoring of the lending practices of banks, as well as differential discount rates to certain priority borrowers (including small producers).
- Provide subsidies to cover the transaction costs of microlending where required, as well as loan guarantees.
- Consider portfolio ceilings and other measures to prevent overlending on 'low priority' activities, as well as variable reserve requirements.

Initiatives taken by RBI

The Reserve Banks approach towards Financial Inclusion aims at connecting people with banking system and not just opening accounts. This includes meeting small credit needs of the people, giving them access to the payments system and providing remittance facilities.

Since past couple of years the Reserve Bank has adopted the following strategy towards financial inclusion:

1. No-Frills Banking Account with Overdraft facility
2. Relaxation on known-your-customer (KYC) norms for opening of no-frill accounts
3. Usage of Regional Language
4. Entrepreneurial Credit such as General Credit Card, and Kisan Credit Card
5. Business correspondents (BCs) and Business Facilitators (BFs) Model.
6. Extensive use of information technology for Banking services
7. Initiating Financial Literacy programme
8. Electronic Benefit Transfer (EBT) system.
9. 100 per cent financial inclusion drive: The RBI launched a financial inclusion drive targeting one district in each state for 100 per cent financial inclusion.
10. Bank branch and ATM expansion liberalized.
11. Cooperative Movement
12. Setting up of State Bank of India
13. Nationalization of banks
14. RRBs and
15. Self Help Groups

SUGGESTIONS

To ensure that MFIs enhance participation , sustain the growth and maximal contribution to economic growth and development of the nation, the following suggestions are as follows:

(a) Government and MFIs themselves should enhance the out-reach of microfinance throughcreating awareness of the activities and operations to Small Scale Enterprises especially those in rural and semi-urban areas that are yet to appreciate the benefits of the scheme. Regular campaigns at the local government will help to achieve this effectively. More so, the expansion of MFIs through the establishment of rural branches is an imperative for increase access to MFIs services.

(b) Government should more urgently look into the infrastructural decay in the country especially on which most Small Scale Enterprises depend on.

(c) Many entrepreneurs manage their enterprises themselves .Hence the managers have to be identified and should be given training.

(d) Many enterprises are owned by the men entrepreneurs, it shows that there is necessity to create entrepreneurial awareness among the women .This will helpful for the success of the SSEs and their sustainability.

(g) Association of small scale entrepreneurs should try to educate the small business entrepreneurs.

(h) Microfinance Institutions should give professional advices to small scale enterprises. Seminars and workshops should be organized by the microfinance institutions to educate small scale enterprises on their policies and judicious use of funds for small scale enterprises.

(I) The microfinance institutions should initiate more developmental projects in order to win the confidence and trust of the small scale enterprises.

REFERENCES:

1. Arunachalam, R. S. 2011. The Journey of Indian Microfinance: Lessons for the Future, Chennai, Aapti
2. Dr.K.Jayalakshmi 2014 micro finance-an imperative for financial inclusion in India,Andrapradesh
3. NABARD,Status of Microfinance in India report 2012-13
4. The maturing of Indian Microfinance by EDA rural system pvt. Ltd.2004.
5. Microfinance Handbook: An Institutional and Financial Perspective (Sustainable Banking with the Poor) by Joanna Ledgerwood (Dec 1, 1998)
6. SIDBI Report on Micro, Small, and Medium Industries Sector 2007,2010.
7. Sarangi, Niranjan (2007), “Microfinance and the Rural Poor: Impact Assessment Based on Fieldwork in Madhya Pradesh, India”, Paper Presented in Conference on Sustainable Development & Livelihoods, Delhi School of Economics, Delhi, 6-8 February.
8. SIDBI (Small Industries Development Bank of India) (2005) Impact Assessment. (web-report) http://www.sidbi.com/Micro/impact.htm.
9. Piyush Tiwari and S.M. Fahad “Microfiance Institutions in India”Housing Development Finance Corporation ,Ramon House, 169 Backbay Reclamation, Mumbai 400 020
10. Shastri, R.K., (2009). Micro-finance and Poverty Reduction in India (A Comparative Study with Asian Countries). African Journal of Business Management
11. Jyoti Prakash Basu “Microfinance and Women Empowerment”An Empirical Study with special reference to West Bengal
12. Basu and Srivastava, “Scaling-up Microfinance for India’s Rural Poor,” World Bank
13. Policy Research Working Paper 3646, June 2005. Accessed Jan. 2006. Available from: http://www.worldbank.org